



Draft Budget Medium Term Revenue and Expenditure Forecasts

MFMA Section 16 Report

2015/2016

Govan Mbeki Local Municipality

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1. OVERVIEW

1.1 Purpose

The purpose of the report is to table the draft 2015/16 Medium-term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 16(2) of the Local Government: Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003) prior to the community consultation process.

1.2 Background

Section 16(1) of the Municipal Finance Management Act (MFMA) stipulates that the council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. Section 16(2) stipulates that in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Section 22 of the MFMA also stipulates that immediately after an annual budget is tabled in a municipal council the accounting officer must make public the annual budget and documents in terms of Section 17; invite the local community to submit representations in connection with the budget; and submit the annual budget to the National Treasury and the relevant provincial treasury in printed and electronic formats.

Section 23(2) of the MFMA stipulates further that “after considering all budget submissions, the Council must give the Executive Mayor an opportunity –

- a) To respond to the submissions; and
- b) If necessary, to revise the budget and table amendments for consideration by the council”.

The tabling of the Draft Budget and IDP will be followed by public consultation meetings with various stakeholders.

The 2015/16 MTREF will be considered for approval by Council in 28 May 2015 after taking into account the outcome of public consultation.

1.3 Long term financial sustainability

The purpose of the long-term financial strategy is to ensure that the municipality is financially sustainable and able to respond to the Municipal Growth and Development Strategy, policies, priorities and infrastructure needs.

The objectives of the LTFS are:

- Prudent and sound medium-term to long-term financial framework.
- Resilience and able to absorb future shocks.
- Ensure sustainability of services.
- ✓ Investment in infrastructure.
- ✓ Adequate maintenance of infrastructure.
- Identify strategies that will ensure long-term financial sustainability:
- ✓ Operational efficiency initiatives,
- ✓ Sustainable and alternative revenue streams.
- Respond to the long-term strategy of the municipality.
- Improve the municipality’s credit rating.

Owing to the limited revenue base (municipal rates, user charges and grants/subsidies) the Municipality has to be proactive in the minimization of costs and the maximisation of efficiencies in order to respond to increased service delivery requirements.

The strategies and measures already implemented to ensure sustainability are:

- The Budget Policy;
- The Revenue Enhancement Strategy;
- Budget Principles and guidelines; and
- The Cash-Flow Management Intervention Initiatives.

Long-term **Financial** Model (LTFM)

The long-term Financial Model essentially informs the compilation of the MTREF with the emphasis on affordability and long-term sustainability. Although the LTFM is predominantly a financial planning tool to ensure long-term financial sustainability for the organisation, the financial planning process and LTFM run parallel to ensure the strategies and direction of the Municipality are at all times informed by best practice. The municipality is in a process of reviewing its plans and developing a long-term financial strategy.

1.4 2015/2016 MTREF Policy statements and guidelines

The IDP is the primary point of reference for preparation of the MTREF. Accordingly the budget addresses the following strategic objectives:

- Provide basic services, roads and storm water.
- Economic growth and development and job creation.
- Sustainable communities with clean, healthy and safe environments and integrated social services.
- Participatory democracy and Batho Pele.
- Promote sound governance.
- Ensure financial sustainability.
- Organisational development and transformation.

The 2015/16 MTREF reflects the reality of the current budgetary pressures. The following budget guidelines directly informed the compilation of the budget;

- Scale down on baseline allocation as indicated by National Government.
- Approve a balanced budget and create cash surplus over the Medium-term.
- The budget must be funded in accordance with the funding compliance procedure set out in MFMA Circular 42 and the Funding Compliance Guideline.
- Reprioritise competing needs within the allocations.
- Ensure the timely delivery of the capital programmes (eliminate under spending of capital budget).
- Tariff and Property Rate increases should take into account the need to address infrastructure backlogs and other strategies and affordability of services.
- The percentage salary increase according circular 74 from National Treasury are as follows:
 - *2015/16 Financial Year – 5.8%*
 - *2016/17 Financial Year – 5.5%*
 - *2017/18 Financial Year - 5.3%*
- Special attention needs to be given to efficiency gains and the principle of value for money.
- Filling of vacancies should be reviewed within the available budget.

2. EXECUTIVE SUMMARY

2.1 Executive Summary

The preparation of the 2015/2016 Budget and Medium Term Revenue and Expenditure Framework (MTREF) is based on the guidelines contained in the MFMA Circular No. 74 issued by National Treasury.

The other fundamental principles underlying the preparation of this draft budget is the application of sound Financial Management to ensure Financial Viability, and that municipal services provide sustainable, economically and equitable to all communities.

The main challenges experienced during compilation of the draft 2016 MTREF can be summarized as follows:

- Significant increase in operating expenditure with limited increase in operating revenue resulting in huge deficits.
- Cash flow constraints
- The increased cost of bulk purchases (due to increase from Rand Water and Eskom).
- The need to re-prioritise expenditure within the existing resource envelope given the cash flow realities and declining cash position.
- Unavailability of own-funding for capital budget; and
- Inability to raise capital/borrowing.

The following principles and guidelines will directly inform the draft 2015/2016 MTREF:

- The performance of 2014/2015 budget was used as baseline and was appropriate as upper limits.
- CPI guidelines from National Treasury except where specific sector increases are prescribed.
- Ensuring that drinking water meets the required quality standards at all times
- Identification of inefficiencies and elimination of no-priority spending
- Securing health of the assets by increasing the spending on repairs and maintenance
- Developing strategies in reducing water and electricity losses
- Developing tariffs that are cost reflective
- Maintaining a long financially sustainable environment
- Protect the poor from the worst impacts of the economic downturn at all times
- Job creation and poverty reduction

For the municipality to be able to deliver efficient and effective public services within the existing fiscal purse, tough decisions will have to be taken on the expenditure side. Priority ought to be given to the following areas:

- A performance culture where all the people are held accountable for their actions, accompanied by clear, measurable outcomes related to key developmental priorities.
- Limit outsourcing of work
- Procurement reforms
- Limit wastage and inefficient systems

The budget has been prepared with a vision of sustaining the financial capability of the municipality in the long term. A special effort was taken to improve the credibility of the budget. The tariffs have been set in line with tariff policy and the following factors were considered:

- The current collection rate
- The affordability of the community
- The social package
- The direct cost drivers

The tariffs for service charges have been increased as follows:

- Water 13.5%
- Electricity 12.69%
- Rates 6 %
- Waste management
 - o Refuse removal 6%
- Sewer 13.5%
- Rental of Facilities 6%
- Miscellaneous 6%

The social package is proposed as follows:

DESCRIPTION	2012/2013	2013/2014	2014/2015	2015/2016
FREE ELECTRICITY	35.96	38.83	40.73	43.99
FREE WATER	116.62	127.00	137.37	149.73
EQUITABLE SHARE	175.00	180.00	190.00	200.00
TOTAL	327.58	345.83	368.10	393.72

The municipality is fully implementing the inclining block tariffs on electricity and water. The IBT for the electricity is in-line with the NERSA guidelines. The water tariffs are also designed using the inclining block model to promote conservative approach to the domestic consumers.

The municipality will still ensure that the poor are protected through the indigent support scheme as per the indigent policy and debt collection strategy. The threshold for increasing free basic services for a household will be reviewed. The increase on the package indicates the municipality's commitment to protect the poor and also to ensure that those who cannot afford to pay are not burden with the unpaid accounts.

The council is committed in creating employment and reducing poverty as part of National Initiative, through meaningful local economic developmental initiatives and labour intensive projects. Furthermore, the municipality will on the continuous basis engage with the service providers to ensure that labour intensive approaches are utilized. The municipality will also ensure that it implements the intern programs to provide the young people with on the job training.

A conservative approach in spending will be adopted to ensure financial sustainability. As a municipality we should also all pay serious attention to managing revenue and any cash streams effectively through revenue management processes and procedures.

2.2 Consolidated overview

The budget has been prepared in terms of guidelines as contained in Circular 74 of the MFMA. The contents and format of the budget are in line with the requirements of the Municipal Budget and Reporting Regulations and any applicable legislation.

The 2015/2016 draft budget comprises of R1.6 billion for operating expenditure and R107 million for capital investment programs. The total operating income budget is R1.6 billion resulting in an operating Surplus of R37.1 million.

Municipal revenues and cash flows are expected to remain under pressure as we still continue to have low income revenue growth with a continued increase in expenditure.

Table 1: Consolidated overview of the 2015/2016 Draft Budget

Description	Audited Outcome 2013/2014	Original Budget 2014/2015	Adjusted Budget 2014/2015	Budget 2015/2016	Budget 2016/2017	Budget 2017/2018
	R'000	R'000	R'000	R'000	R'000	R'000
Total Operating Revenue	1 322 385	1 592 998	1 546 477	1 653 167	1 810 704	1 999 262
Total Operating Expenditure	1 653 417	1 833 009	1 539 115	1 616 011	1 732 284	1 837 622
Surplus /(Deficit) for the year	(331 032)	(240 011)	7 362	37 156	78 424	161 639
Total Capital Expenditure	132 521	141 993	207 993	107 044	156 508	238 014

Operating budget

The operating budget deals with day to day operations of the municipality to ensure that service delivery is sustained.

The draft operating budget has increased to R1.616 billion compared to the current adjusted budget of R1.539 billion.

The trend is that the operating expenditure has been increasing over the years driven by:

- salary increments
- the need to repair infrastructure
- the need to adequately budget for debt impairment and depreciation,
- Inflation

Capital budget

An amount of R107 million has been allocated for the capital investment program for 2015/2016 financial year. This is a decline from the R141 million budgets for 2014/15. The main reason for this is reduction in the MIG allocation for the year, no allocation from the District Municipality and no confirmation from other sources yet.

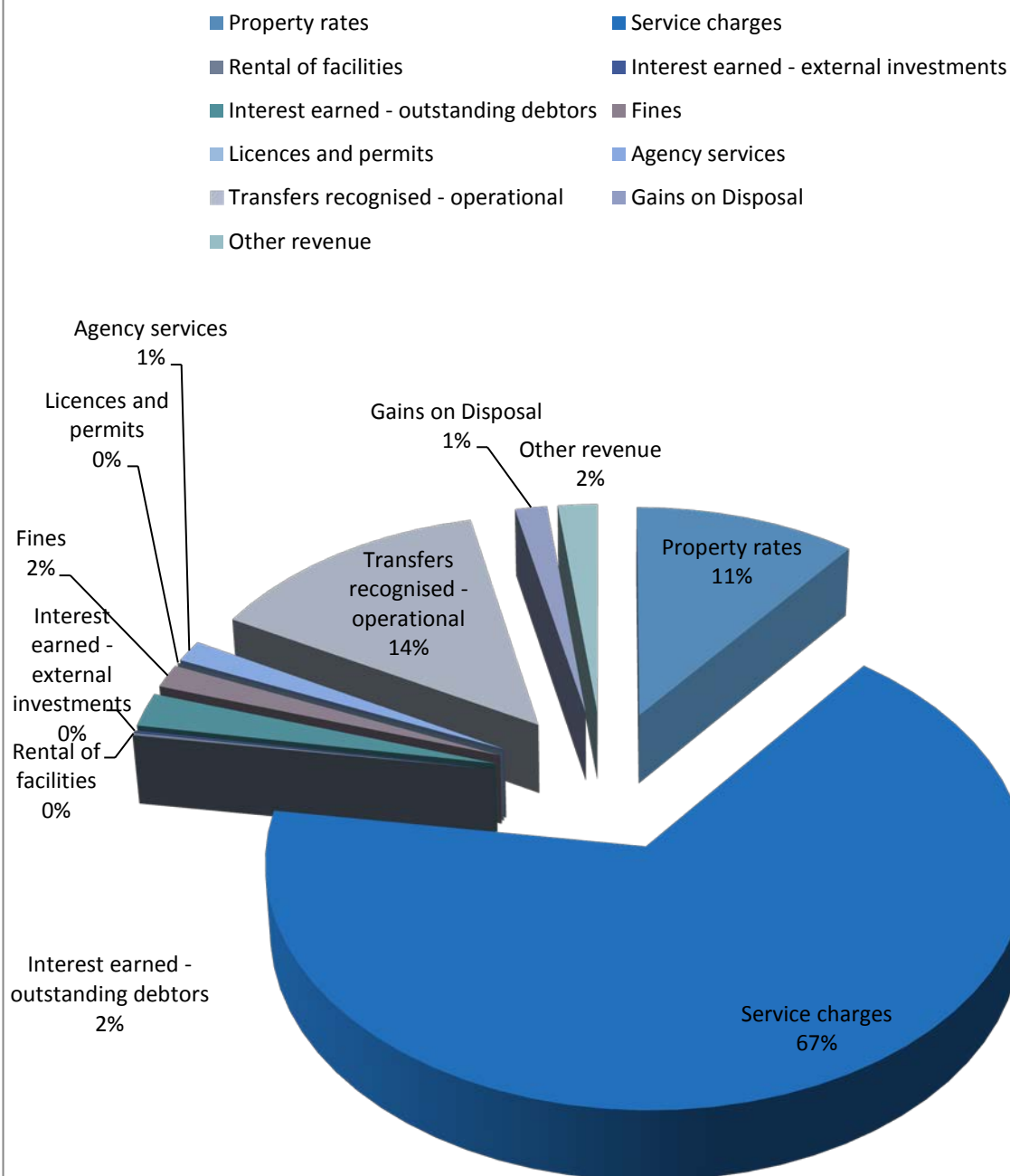
3. DETAILED OVERVIEW OF BUDGET

3.1 Financial performance (revenue and expenditure)

Description	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
R thousand	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Revenue By Source									
Property rates	173 240	169 763	219 808	165 000	170 732	120 935	174 363	184 825	195 915
Property rates - penalties & collection charges	547	–	–	–	–	–	–	–	–
Service charges - electricity revenue	334 268	434 856	483 238	497 888	407 643	280 663	561 070	632 270	712 505
Service charges - water revenue	235 354	279 218	275 317	291 317	291 317	291 317	330 644	375 281	425 944
Service charges - sanitation revenue	51 927	66 318	76 758	89 094	89 094	89 094	101 122	114 773	138 267
Service charges - refuse revenue	77 093	84 648	95 437	105 617	90 768	64 294	111 954	118 671	125 792
Service charges - other	–	–	17 500	–	5	4	–	–	–
Rental of facilities and equipment	3 872	2 778	3 065	3 065	2 671	1 826	3 249	3 444	3 651
Interest earned - external investments	3 502	1 667	1 581	1 581	1 581		1 676	1 774	1 862
Interest earned - outstanding debtors	31 233	35 288	36 286	36 286	36 286	26 308	38 251	40 469	42 493
Fines	8 014	22 738	7 378	25 000	19 790	14 160	26 375	27 826	29 356
Licences and permits	–	3	5	5	–	–	5	6	6
Agency services	19 682	23 751	23 264	23 264	33 443	8 215	24 660	26 139	27 708
Transfers recognised - operational	193 751	220 634	224 188	224 188	241 354	170 959	223 661	227 222	235 779
Other revenue	179	5 993	29 397	29 372	42 109	29 378	31 136	33 004	34 984
Gains on disposal of PPE	(129 885)	(53 657)	100 000	55 000	24 344	16 366	25 000	25 000	25 000
Total Revenue (excluding capital transfers and contributions)	1 003 045	1 293 982	1 592 997	1 546 477	1 421 253	981 912	1 653 167	1 810 704	1 999 261
Expenditure By Type									
Employee related costs	318 675	338 371	361 709	364 532	355 675	250 548	385 675	406 887	428 452
Remuneration of councillors	15 567	16 310	18 544	16 544	14 560	10 313	17 503	18 466	19 444
Debt impairment	(241 603)	142 149	114 773	125 984	11	8	114 464	102 279	86 707
Depreciation & asset impairment	310 569	188 841	322 884	190 526	–	–	194 337	198 223	202 188
Finance charges	15 251	15 105	3 776	2 727	19 119	12 386	2 885	3 044	3 205
Bulk purchases	476 456	556 919	572 152	537 742	561 574	346 986	597 616	666 699	744 691
Contracted services	61 108	73 947	95 636	64 706	69 587	46 934	64 706	68 265	71 883
Transfers and grants	31 564	49 733	58 375	58 375	62 044	43 707	59 543	60 734	61 948
Other expenditure	119 439	243 729	285 160	177 979	198 903	136 879	179 281	207 687	219 104
Total Expenditure	1 107 027	1 625 104	1 833 009	1 539 115	1 281 473	847 762	1 616 011	1 732 284	1 837 623
Surplus/(Deficit)	(103 982)	(331 122)	(240 012)	7 361	139 781	134 150	37 156	78 424	161 639
Transfers recognised - capital	107 340	116 487	71 781	71 781	87 880	62 248	69 888	78 084	76 375
Contributions recognised - capital	6 428	63 143	0	71 117	87 236	56 709			
Contributed assets	9 539	9 687	5 300	5 300	3 202	2 268	–	–	–
Surplus/(Deficit) after capital transfers & contributions	19 325	(141 805)	(162 930)	155 559	318 098	255 375	107 044	156 508	238 014
Surplus/(Deficit) for the year	19 325	(141 805)	(162 930)	155 559	318 098	255 375	107 045	156 508	238 014

3.2 Revenue

Revenue 2015-2016



Comments on Operating Revenue

The property rates

The property rates has been increased to R 165 million in the current financial year. This revenue stream has been increased by 6%. The estimated forecast by 30 June 2015 is R170 million. An amount of R 30.9 million is budgeted for the income forgone in terms of rebates and discounts that are offered by the municipality for the indigents, pensioners and the areas where the municipality is not providing services. This revenue stream contributes 11% of the total revenue.

Service charges

Service charges include electricity, refuse, sewer and water. The service charges for 2015/2016 amount to R 1 104 billion, 2016/2017 R 1 241 billion and 2017/2018 amounts to R 1 402 billion. The R 1 104 billion is made up of the following, water R 330.6 million, Refuse R 111.9 million, Sewerage R 101.1 million and electricity R561 million. The service charges contribute 67% of the operating revenue.

Interest on debtors

Interest on debtors has been increased to R 38.2 million guided by the expected figures by year end. The increase on interest on debtors was informed by past year trends as well as inflation. This revenue stream contributes 2% of the total revenue.

Rent of facilities

The rental of facilities projected revenue increased by 8% based on expected tariff increases. The stream contributes 0.2% of the revenue.

Interest on investments

The interest on investment is expected to increase to R 1.67 million due to current performance of the revenue stream in 2014/15.

Fines

The revenue estimates for the fines have been increased from R 7.3 million to R 26.7 million, this was done to make a provision as required by iGRAP1.

The agency fees

The estimates for this revenue stream has been increased from R23.6 million to 24.6 million, this is based on current performance in 2014/15. This revenue stream needs to be properly monitored. It contributes 1% to the total operating revenue streams.

Grants and Subsidies – operating

The grants subsidies operational refers to the operational part of the Finance Management Grant, Municipal Systems Grant Improvement Grant, Extended Public Works Programme, Infrastructure Skills Development Grant and the Equitable Share.

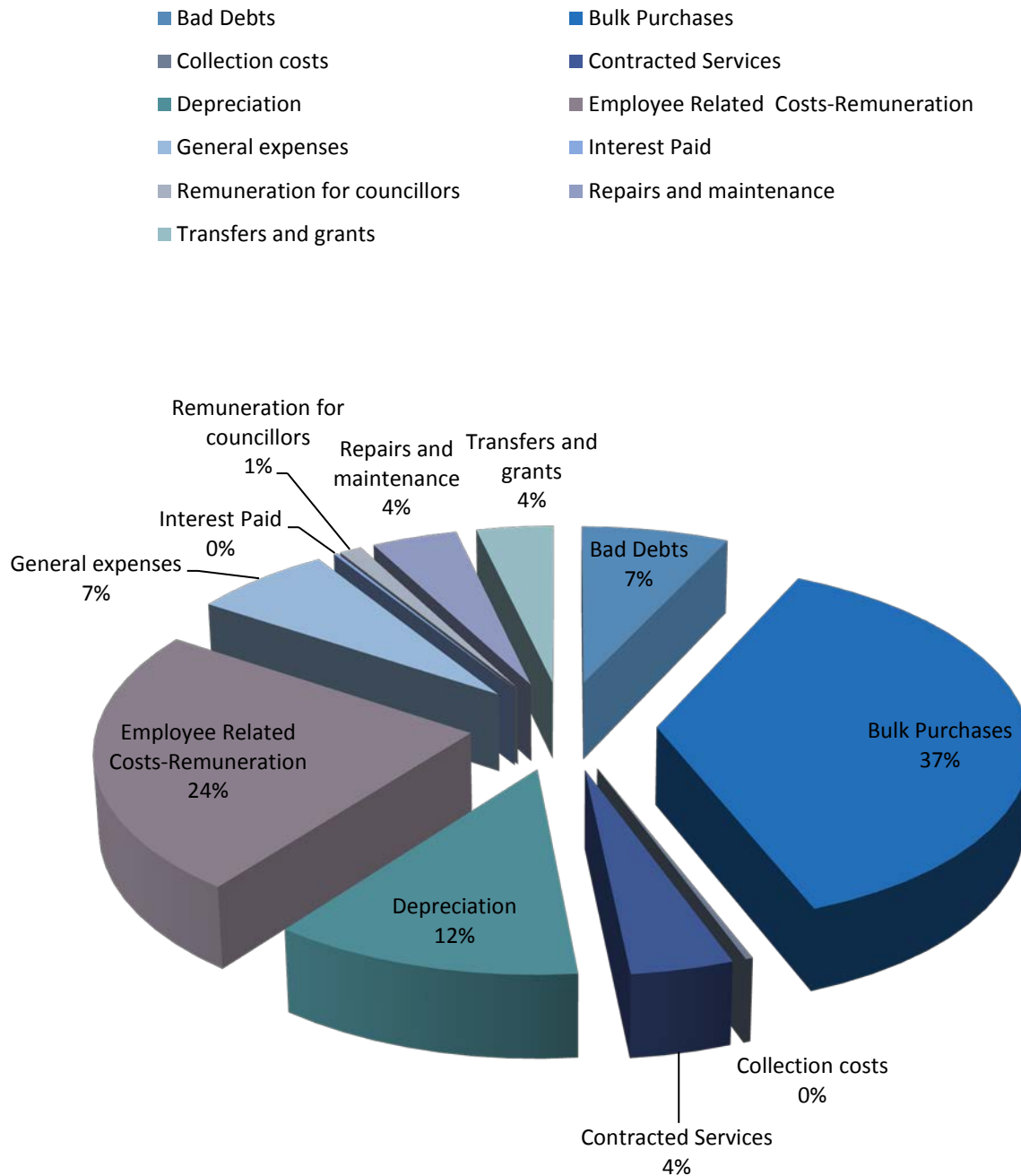
The equitable share allocation for 2015/2016 is R 194.9 million. The Finance Management Grant is R 1, 6 million for 2015/2016. The Municipal Systems Improvement Grant allocation for 2015/2016 is R930 000 and for 2014/2015 is R 934 000. The Extended Public Works Program Grant is R2.1 million for 2015/2016 and 2014/2015 allocation was R2.0 million. Infrastructure Development Grant is R23.0 million for 2014/2015 and 2014/2015 allocation was R26.0. This revenue stream contributes 14% of the expected operating revenue, which indicates the municipality is generating its own revenue of 86%.

Other Revenue

An amount of 29 million was budgeted for the current year and the expected performance by year end is expected to be R 29 million. The indicative figure for the 2015/ 2016 is R 31 million however monitoring and control should be exercised to achieve the results. Departments should report monthly on their revenue streams.

3.3 Operating Expenditure

EXPENDITURE 2014-2015



Comments on Operating Expenditure:

Employee related costs

The employee related costs and remuneration of councillors indicate a percentage of 21% of the total operating budget. The average salary increase 5.8% The overtime will have to be controlled and filling of vacant positions will have to be fast tracked.

General expenditure

In a bid to cut cost and ensure the funding of the overall budget, general expenditure budget was not changed from to the current adjusted budget. The transport cost still needs to be controlled. General expenditure takes 7% of the total operating expenditure.

Contracted services

In a bid to cut cost and ensure the funding of the overall budget, contracted services budget was not changed from to the current adjusted budget. Contracted services constitute 4% of total operating expenditure.

The contract management will have to be improved for the contracted services. The outsourcing of work will need to be controlled to ensure skill transfer.

Bulk purchases

The bulk purchases for electricity and water amounts to R 597.6 million, which contributes 37% of the operating budget. The Eskom will increase the bulk purchases to the municipality by 14% and Rand Water will be 8.01%.

Repairs and maintenance

The repairs and maintenance plan for the departments must be aligned with their budget and monthly reports should indicate how the departments are progressing. The repairs and maintenance contributes 4% of the operating budget. The revenue generating assets should be to an adequate level ensuring that quality services are sustained.

Debt Impairment

Debt impairment constitutes 7% of total operating expenditure. The budgeted amount was based on an average collection rate of 87%. Full and consistent implementation of the revenue expenditure should see a significant decline in this expenditure class.

Transfers and grants

Transfers and grants (Indigent support) constitutes 4% of total operating budget. The budget was based on current year forecast increased with inflation.

Depreciation

Depreciation constitutes 12% of the budget. The budget increase was informed by historical trends as well as budgeted and forecasted additions.

3.4 Capital Budget

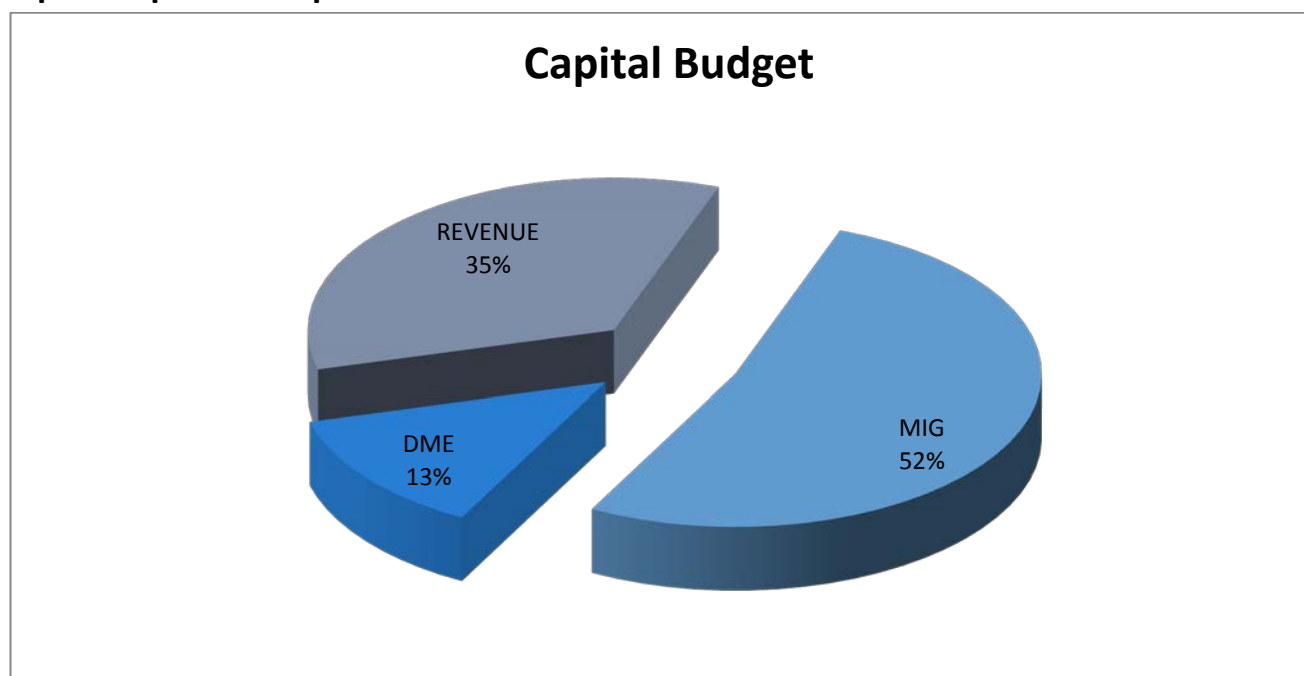
MP307 Govan Mbeki - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description R thousand	2012/13	2013/14	Current Year 2014/15				2015/16 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2015/16	Budget Year +1 2016/17	Budget Year +2 2017/18
Capital expenditure - Vote									
<u>Single-year expenditure to be appropriated</u>									
Vote 1 - Executive & Council	62	189	300	100	100	89	-	-	-
Vote 2 - Corporate Services	770	310	3 150	2 300	82	58	-	-	-
Vote 3 - Planning & Development	6 253	28 633	15 602	90 985	106	60	-	-	-
Vote 4 - Community Services	39 245	21 423	17 431	26 877	26 707	17 704	11 000	5 000	31 375
Vote 5 - Financial Services	71	301	-	1 447	1 622	1 276	37 156	78 424	161 639
Vote 6 - Technical services	86 120	87 615	105 510	85 645	142 661	73 430	58 888	73 084	45 000
Total Capital Expenditure - Vote	132 521	138 470	141 993	207 354	171 278	92 617	107 044	156 507	238 014
Capital Expenditure - Standard									
<i>Governance and administration</i>	904	799	3 450	3 847	1 804	1 423	37 156	78 424	161 639
Executive and council	62	189	300	100	100	89	-	-	-
Budget and treasury office	71	301	-	1 447	1 622	1 276	37 156	78 424	161 639
Corporate services	770	310	3 150	2 300	82	58	-	-	-
<i>Community and public safety</i>	37 801	49 337	16 891	26 847	26 707	17 704	-	-	-
Community and social services	17 244	13 972	6 731	6 807	6 696	4 982	-	-	-
Sport and recreation	8 075	7 435	10 000	20 011	20 011	12 722	-	-	-
Public safety	12 483	-	-	-	-	-	-	-	-
Housing	-	27 931	160	30	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-
<i>Economic and environmental services</i>	62 814	40 957	79 652	133 161	41 367	30 711	-	-	-
Planning and development	6 253	702	15 442	90 955	106	60	-	-	-
Road transport	55 118	40 255	63 710	42 176	41 260	30 651	-	-	-
Environmental protection	1 444	-	500	30	-	-	-	-	-
<i>Trading services</i>	31 002	47 376	42 000	43 499	101 400	42 779	69 888	78 084	76 375
Electricity	8 428	4 565	17 500	33 221	31 183	4 268	14 000	20 000	15 000
Water	7 099	3 516	2 300	4 718	4 718	-	3 888	-	-
Waste water management	15 475	39 279	22 000	5 530	65 500	38 511	41 000	53 084	30 000
Waste management	-	16	200	30	-	-	11 000	5 000	31 375
Total Capital Expenditure - Standard	132 521	138 470	141 993	207 354	171 278	92 617	107 044	156 507	238 014
Funded by:									
National Government	107 340	107 340	71 781	71 781	71 781	47 573	69 888	78 084	76 375
Provincial Government				-					
District Municipality	5 628	5 628	5 300	5 300	5 300	441			
Other transfers and grants	2 030	2 030		115 116	79 040	38 070			
Transfers recognised - capital	114 998	114 998	77 081	192 197	156 121	86 085	69 888	78 084	76 375
Public contributions & donations									
Borrowing									
Internally generated funds	17 523	23 471	64 912	15 157	15 157	6 532	37 156	78 424	161 639
Total Capital Funding	132 521	138 470	141 993	207 354	171 278	92 617	107 044	156 507	238 014

Capital Expenditure per source

Description	2014/15 Approved Budget	Total Adjusted Budget	Actual Year to Date	2015/16 Budget	2016/17 Budget	2017/18 Budget
Department of Human settlement	-	90,000,000	38,070,358	-	-	-
DME				14,000,000	20,000,000	15,000,000
Gert Sibande District	5,300,000	5,300,000	441,037	-	-	-
MIG	71,781,000	71,781,000	53,518,869	55,888,000	58,084,000	61,375,000
Revenue	64,912,000	15,157,000	6,532,473	37,156,456	78,423,506	161,639,419
Sasol		15,116,475	-			
Sanedi	-	10,000,000	-			
Grand Total	141,993,000	207,354,475	92,617,127	107,044,456	156,507,506	238,014,419

Capital Expenditure per source



The capital budget amount to R107 million and a detailed MIG capital investment program is attached. The capital program is funded mainly through Municipal Infrastructure Grant.

GOVAN MBEKI MUNICIPALITY: PROPOSED MIG PROJECTS (MTEF)

Project Description	Proposed Budget 2015/2016
Upgrading of Kinross WWTW	10 000 000
Upgrading of Embalenhle WWTW	20 000 000
conversion of VIP toilets in Emzinoni ext 5,6,10	11 000 000
conversion of VIP toilets in Kinross ext 25	11 000 000
installation of boreholes in rural areas	3 888 000
Total	55 888 000

4. CONSULTATION PROCESS

Section 22 of the Municipal Finance Management Act requires that after tabling of the Draft Budget, the municipality must make the budget available to the public and conduct community participation.

The following are the key deadlines to be achieved through this process:

Detail	Date
Approval of Draft Budget	31 March 2015
Budget Workshop	2 April 2015
Public Consultation	To be advised by Speaker's Office
Budget Steering Committee Meeting	To be advised by Speaker's Office
Approval of Budget	28 May 2015

5. BUDGET RELATED POLICIES AND OVERVIEW OF TARIFF ADJUSTMENT

The municipality's budgeting process is guided and governed by the relevant legislation and related policies.

The purpose of the budget related policies is to govern and guide the budget process and inform the projections of the medium term.

Listed below with a brief description are the municipalities budget related policies. The budget and accounting policies were reviewed during the year.

The accounting policy is reviewed on an on-going basis to incorporate changes required by the relevant Accounting Standards, apart from the changes to these policies as part of the budget process.

- Budget related policies are attached for review as follows:

5.1 Virement Policy (Annexure D)

The Virement policy establishes the framework for managers to manage their respective budgets within limitations, and also to ensure good budgeting practice and effective financial management. The Virement policy has been amended to improve budgetary controls.

5.2 Accounting policy (Annexure E)

The accounting policy guides the preparation of the Annual Financial Statements and is reviewed each year during the preparation to ensure compliance with Generally Recognized Accounting standards and other guiding principles such as International Financial Reporting.

5.3 Supply Chain Management Policy (Annexure F)

The supply chain management policy was adopted and amendments are as result of council resolution.

5.4 Credit control and Debt collection policy (Annexure G)

The council adopted a policy a few amendments have been made to give clear indication in terms indigents, s 118 on the issuing of rates clearance and the outstanding debt.

5.5 Investment policy (Annexure H)

The intention of the investment policy is to ensure investments are made in an efficient and effective manner which generates the best returns for the municipality while considering preservation and safety of the principal and appropriate liquidity.

5.6 Property Rates policy (Annexure I)

Section 3(1) of the Local Government Property Rates Act, 2004 (Act 6 of 2004) and Section 62 (1) (f) of the Municipal Finance Management Act, determines that a municipality must adopt and implement a rates policy on the levying.

5.7 Tariff policy (Annexure J)

The tariff policy covers levying of tariffs, fees and charges for municipal services. The tariff policy details electricity, water, sewer, refuse removal and miscellaneous tariffs.

5.8 Fixed Asset Management Policy (Annexure K)

The asset policy is designed to ensure management of Municipal assets in efficient and effective manner with regard to acquisition, utilization, control maintenance and disposal of assets. The policy guides Directorates in their responsibility and duties for control of their assets.

5.9 Short Term Risk and Liabilities Policy (Annexure L)

5.10 Funding and Reserves Policy (Annexure M)

5.11 Budget Policy (Annexure N)

5.12 Borrowing Policy (Annexure O)

5.13 Blacklisting Policy (Annexure P)

5.14 Indigent Management Policy (Annexure Q)

5.15 Travelling and Subsistence Policy (Annexure R)

5.16 Provision for Doubtful Debt and Debt Write-Off Policy (Annexure S)

5.17 Unclaimed Deposit Policy (Annexure T)

6. OVERVIEW OF BUDGET ASSUMPTIONS

The budget assumptions are determined before the budget process, guided by the economic outlook, movements in terms of the markets and by the national treasury guidelines.

The assumptions are devised in such a way that they support the short and long term finances and strategy of the municipality.

6.1 Key Financial Indicators

The growth parameters set by National treasury are set between 3 and 6 percent which are also target range for the inflation rate. All steps have been taken to be in line with these National Treasury guidelines however the following factors affect the municipal operations and the budget accordingly:

- Anticipated high fuel prices
- Higher salaries
- Increase by Eskom and Rand water
- Job creation and protecting the poor

The 2015/2016 has been developed guided by the following inflation forecast:

Fiscal Year	2013 Actual	2014 Actual	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
Real GDP Growth	3.1%	3.1%	3.8%	3.0%	3.6%	3.8%
CPI Inflation	5.6%	5.6%	6.2%	5.8%	5.5%	5.3%

Source: Budget Review 2013

6.2 Credit Rating

The municipality has not had a credit rating and with National Treasury support, the municipality will have to undertake it.

6.3 Borrowing and Investment of funds

The MFMA permits the borrowing for long term if it is for the acquisition of capital goods such plant and equipment and infrastructure. The municipality will consider the unsecured loan in the medium term, as this is backed up by the acknowledgement from the lender, that the municipality is showing sound financial management and an ability to meet short term obligations.

The municipality has a total amount of R 14.9 million external loans.

The investments amount to 44 million, R16 million of these investments are securities for the loans and due to negative cash flow the municipality is unable to build more reserves.

6.4 Rates, tariffs, charges and timing of revenue collection

Accounts for rates, refuse, electricity, water and sanitation are issued on a monthly basis and are due and payable before the 7th of the month. Recovery procedures for non-payment may be commenced within 7 days of payment default. The electricity supply is cut and water supply is restricted when a client defaults. The municipality is committed in ensuring that collection levels are improved and that credit control will be enforced on those who can afford and not honouring their municipal accounts.

6.5 Collection rates for each revenue source

The collection rate for all the services is expected to be on the 87% average throughout; this is due to credit control actions that are taken against the defaulters. Where ESKOM is a service delivery agent, consumers who are not paying will be restricted water.

6.6 Price movements on specifics

The cost of bulk purchases amounts to R 597.6 million for both electricity and water. The projections are informed by the increases from the Rand water and Eskom. Eskom has advised there will be an increase across the board of 14% on the bulk purchases of electricity. Nersa approved an annual 14% increase in the bulk price of electricity in terms of the third multiyear price determination application applicable for 2014/15 to 2017/18.

The increase on both electricity and water tariff has been pegged at 12.69% and 13.5% respectively per Nersa and Rand Water.

6.7 Average salary increases

MFMA Circular no 74 was taken into account in budgeting for employee related costs it recommends an increase of 5.8%, CPI indicative.

6.8 Changing Demand characteristics

The demand for services is increasing yearly as the municipality is expected to deliver services to the indigent and pressure to reduce poverty.

6.9 Ability to the municipality to spend and deliver on programs

The 2014/2015 operating budget will be spent 100% by year end looking at the projected actual by year end. The challenges are still there in terms of maintaining the infrastructure and managing the breakaways of vehicles especially revenue generating.

7. ALIGNMENT OF BUDGET TO THE INTEGRATED DEVELOPMENT PLAN

7.1 IDP Review and stakeholder participation

The IDP has been prepared for the medium term to 2014/2015. In the current financial year the IDP has undergone the review as required by the Municipal Systems Act and MFMA. Community needs and inputs were sought and the stake holders were consulted.

The IDP takes cognizance of the National, provincial and district priorities. The key focus and IDP priorities are:

- To provide , improve and sustain infrastructure
- To promote socio economic development in rural and urban areas
- To enable and speed up institutional transformation
- To strengthen democracy and good governance
- To improve and sustain financial management

7.2 IDP link to the budget

In compliance with Systems Act of 2000 and the Municipal Finance Management Act the budget is informed and aligned to the IDP priorities.

The budget will be fully aligned to the IDP.

8. BUDGET SCHEDULES

Draft Budget schedules in terms of National Treasury requirements are attached as an “**Annexure B**”.

9. BUDGET RECOMMENDATIONS

1. That the report on the Draft Medium Term Revenue and Expenditure Framework for 2015/2016 and two outer years **BE NOTED**.
2. That the budget comprising of operating Income budget of R 1,653,167,512 operating expenditure budget of R1,616,010,545 and capital budget of R 107,044,456 as set out in the following tables **BE CONSIDERED** for the adoption to ensure compliance with section 16 (2) of the Municipal Finance Management Act (No 56 of 2003):
 - 2.1 *Table A1: Budget Summary*
 - 2.2 *Table A2: Budget Financial Performance*
 - 2.3 *Table A3: Budgeted Financial Performance (Municipal Votes)*
 - 2.4 *Table A4: Budgeted Financial Performance (Revenue and Expenditure)*
 - 2.5 *Table A5: Budgeted Capital Expenditure by Vote*
 - 2.6 *Table A6: Budgeted Financial Position*
 - 2.7 *Table A7: Budgeted Cash Flows*
 - 2.8 *Table A8: Cash Backed Reserves / Accumulated Surplus Reconciliation*
 - 2.9 *Table A9: Asset Management*
 - 2.10 *Table A10: Basic Service Delivery Measurement*
3. That the budget related policies of Council mentioned in the report **BE REVIEWED**.
4. That the budget workshop **BE HELD** on the 2nd of April 2015 for all Councillors and senior staff from various departments **TO DISCUSS** the draft in details
5. That Office of the Speaker **TO CO-ORDINATE** budget consultation with communities during the 15th to the 30th of April 2015.
6. That the proposed changes to the budget related policies **BE CIRCULATED** prior to the budget workshop, currently no changes are proposed.
7. That the project details as per the capital budget will **BE CIRCULATED** prior to the budget workshop.
8. That proposed tariff increases **BE ADOPTED** as follows:
 - 8.1 **ASSESSMENT RATES**

All property taxes as per the 2014/2015 tariff, plus 6%.

8.2 *SEWERAGE*

All sewerage charges as per the 2014/2015 tariff, plus 13.5%.

8.3 *REFUSE*

All refuse charges as per the 2014/2015 tariff, plus 6%.

8.4 *WATER*

All basic water charges as per the 2014/2015 tariff, plus 13.5%

All consumption charges as per the 2014/2014 tariff, plus 13.5% using the inclining model

8.5 *ELECTRICITY*

Increase with 12.69 %

8.6 *DEPOSITS*

Increase with 6%

8.7 *MISCELLANEOUS TARIFFS*

- As per the 2014/2015 tariff plus 6% unless stated otherwise.
- These include all tariffs that are not included in the tariffs as defined above and not used by all consumers.
- These are tariffs that are used on a needs basis.
- All tariffs excluded VAT except in the case of assessment rates that are zero-rate.

8.8 *INTEREST / CAPITALIZED ARREARS*

- No interest will be levied on those arrears for which the consumer made formal arrangements.
- Interest will only be levied on those arrears for which no formal arrangement exist and/or arrear as a result of not complying with the said arrangements.
- Interest rates will be levied at market related rates.